

COMMITTEE HEARING
BEFORE THE
CALIFORNIA ENERGY RESOURCES CONSERVATION
AND DEVELOPMENT COMMISSION

In the Matter of:)
) Docket Nos.
Informational Proceeding and) 03-IEP-01
Preparation of the 2004 Integrated) 02-REN-1038
Energy Policy Report Update) 03-RPS-1078
) 04-DIST-GEN-1
(2004 Energy Report Update))
_____)

CALIFORNIA ENERGY COMMISSION

HEARING ROOM A

1516 NINTH STREET

SACRAMENTO, CALIFORNIA

FRIDAY, OCTOBER 1, 2004

10:39 A.M.

Reported by:
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COMMISSIONERS PRESENT

John Geesman, Presiding Member

James Boyd, Associate Member

ADVISORS PRESENT

Melissa Ann Jones

Michael Smith

Rick Buckingham

STAFF PRESENT

Kevin Kennedy, Program Manager

Sandra Fromm, Assistant Program Manager

ALSO PRESENT

Barbara Hale
California Public Utilities Commission

Gregory T. Blue
Dynegy, Inc.
On behalf of West Coast Power

Les Guliasi
Pacific Gas and Electric Company

Manuel Alvarez
Southern California Edison Company

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P R O C E E D I N G S

9:29 a.m.

PRESIDING MEMBER GEESMAN: This is the 17th public hearing or workshop in the Commission's 2004 Integrated Energy Policy Report update.

I'm John Geesman, the Commission's Presiding Member of the Integrated Energy Policy Report Committee. To my left is Jim Boyd, the Associate Member of the Committee this year, and the Presiding Member of the 2003 Report Committee.

This is, under the statute, an update of that 2003 report. We are going to hold two more hearings on the Committee draft next week, one in Los Angeles and one in Fresno. Then we will publish a revised draft on October 20th. The Commission will consider the Committee recommendations at its business meeting on November 3rd.

We are led to believe that the Governor's Office will deliver its response to the report at some point in late November, early December.

As I think most of you know, the 2003 report was our first under SB-1389. It's the

1 first time in about seven or eight years that the
2 Commission has been in this integrated resource
3 planning responsibility.

4 Because of the change in Governors last
5 year, no formal response to the report, as had
6 been contemplated in SB-1389, took place. There
7 have been several quasi-formal responses, either
8 in letters to one Commission or another, or in
9 veto messages, which would suggest that we are
10 generally in synch with the Administration.

11 But we're looking forward, with the
12 completion of this update process, to getting a
13 more formal response from the Governor's Office.
14 And then under the statute the report and those
15 recommendations go to the Legislature for its
16 consideration.

17 I want to thank you for your attendance
18 today, and for many of you, your ongoing
19 participation in this process. It is a slow and
20 hopefully deliberative process that I think lies
21 at the very heart of the way the Energy Commission
22 has attempted to discharge its responsibilities.

23 It's our belief that over the course of
24 our soon-to-be 20 public events on this process we
25 will have gathered input from all affected

1 stakeholders and many members of the public as to
2 the appropriate direction of California energy
3 policy.

4 It is not a particularly quick process,
5 as I think everyone realizes. We're hopeful it
6 will contribute to developing a stable and
7 enduring set of policies for the state to follow
8 in the energy area.

9 The 2004 report focuses on three
10 specific issues identified in the 2003 report as
11 deserving of intensified scrutiny. The first of
12 those issues that we've taken up has been the role
13 of aging power plants in our existing generating
14 fleet; and the reliability and environmental
15 ramifications from that reliance on those plants.

16 The second has been ways in which to
17 improve our transmission planning process. There
18 was a great deal of attention paid in the 2003
19 report to difficulties in the transmission
20 permitting process. The 2004 report attempts to
21 bring a comparable level of scrutiny to the
22 transmission planning process. And I think those
23 two subjects are really companion recommendations
24 in the general area of transmission.

25 The third area for the 04 update has

1 been accelerating the development of our renewable
2 resources. There's been a great deal of activity
3 in that area over the course of the last year.
4 And the report attempts both to report on those
5 developments and to provide some recommendations
6 going forward as to how we can better focus those
7 renewable programs.

8 With that, let me introduce Rick
9 Buckingham, to my extreme left. He is the Advisor
10 to Chairman Keese. And Melissa Jones to my right,
11 my staff Advisor. I suspect Commissioner Boyd's
12 Advisors will be joining him shortly.

13 Commissioner Boyd, do you have any
14 remarks you'd care to make?

15 COMMISSIONER BOYD: Thank you,
16 Commissioner Geesman. Just a comment or two;
17 you've very eloquently covered the purpose for our
18 being here.

19 I just want to add my welcome and thanks
20 to everybody who is here today. And we indeed
21 look forward to getting input from the public and
22 the affected public on the IEPR. As Commissioner
23 Geesman said, we've had quite a series of either
24 public workshops or public hearings. San Diego
25 yesterday; San Francisco the day before; and a

1 couple more next week. So, we appreciate the
2 effort you all make to provide us both oral and
3 written input on this.

4 The Commissioner pointed out the three
5 areas of concentration for the 2004 update, but we
6 always think ahead to the 2005 year and issues
7 that we might identify that need to be addressed
8 then; and we always reflect back on what it is we
9 said in the 2003 integrated report.

10 So, we're very open and anxious to hear
11 from folks and their points of view on that whole
12 host of issues. So, anyway, thank you and turn it
13 back to the Chairman.

14 PRESIDING MEMBER GEESMAN: Sandra, you
15 have a staff report?

16 MS. FROMM: Yes. Good morning, I'm
17 Sandra Fromm, the Assistant Program Manager for
18 the 2004 Integrated Energy Policy Report. And
19 this is Kevin Kennedy, the Program Manager.

20 Since Commissioner Geesman did a good
21 summary of the background I'll go ahead and
22 proceed right to the recommendations, because what
23 we really want to do today is hear what you have
24 to say about these recommendations.

25 I just need to scroll forward to the

1 first recommendation. In looking at near-term
2 supply and reliability concerns, the 2003 Energy
3 Report concluded that under average weather
4 conditions California would likely have adequate
5 energy supplies through 2009.

6 But with adverse weather, operating
7 reserve margins in 2006 and beyond could fall
8 below the 7 percent needed to maintain system
9 reliability.

10 The aging power plant study of 2004
11 noted that as many as 9000 megawatts are
12 considered at risk of retiring by 2008. If many
13 of these at-risk power plants retire the reserve
14 margins could fall below the 7 percent threshold.

15 Additionally, during this past summer,
16 regional reliability concerns associated with
17 transmission congestion emerged, particularly in
18 southern California. It was noted that aging
19 power plants appeared to help alleviate some of
20 this congestion.

21 To address near-term supply issues and
22 reliability concerns, the Committee recommends
23 that all investor-owned utilities and municipal
24 utilities work aggressively to attain the 2007
25 statewide goal of 5 percent peak demand reduction

1 through demand response programs.

2 In the Committee draft policy there are
3 a number of specific recommendations, such as
4 modification of the tariff design, immediate
5 rollout of advanced metering systems, and
6 development of dynamic rate offerings and load
7 control options.

8 The Committee recommends that the Energy
9 Commission work with the Public Utilities
10 Commission to develop a capacity market that
11 includes capacity tagging mechanism and tradeable
12 capacity rights. The PUC will be holding a
13 capacity market workshop on October 4th and 5th in
14 San Francisco.

15 The Committee also recommends that the
16 Energy Commission, the PUC and all utilities
17 enhance supply management by establishing more
18 closely coordinated planning and reserve sharing;
19 pursuing cost effective seasonal exchanges with
20 the Pacific Northwest; and exploring opportunities
21 to use existing pump storage facilities more
22 fully.

23 Although the Committee poses these
24 short-term solutions, they also recognize that
25 these solutions should not interfere with long-

1 term goals for our electricity system.

2 Transmission upgrades and expansions are critical
3 to insuring a reliable electricity delivery
4 system.

5 However, transmission expansions
6 typically have long lead times that need to be
7 considered during the planning process. SB-1565,
8 recently signed into law, requires the Energy
9 Commission to adopt a strategic plan for the
10 state's electric transmission grid planning.

11 The Committee recommends that the Energy
12 Commission establish a comprehensive statewide
13 transmission planning process with the Public
14 Utilities Commission, the Cal-ISO, other key state
15 and federal agencies, stakeholders and interested
16 public.

17 This transmission planning system must
18 recognize the long and useful life of the
19 transmission assets and their public goods nature;
20 identify transmission corridors, and consider
21 access to the state's renewable energy resources.

22 The Committee further recommends the
23 Energy Commission increase its participation in
24 the joint transmission study group on the
25 Tehachapi wind resources area; work with the PUC

1 to establish a joint study group for Imperial
2 County's geothermal resources; and work with the
3 PUC and the Cal-ISO to determine whether changes
4 are needed to the Cal-ISO tariff to meet
5 transmission needs for renewables.

6 While the Governor supports a 33 percent
7 by 2020 goal, his veto letter on SB-1478 he
8 objected to provisions that would impede progress
9 on renewables. The Committee recommends that the
10 state enact legislation to require all retail
11 suppliers of electricity, including large publicly
12 owned electric utilities, to meet a 33 percent
13 eligible renewable goal by 2020.

14 Because much of the technical potential
15 renewable lies in Southern California Edison area,
16 and because SCE has demonstrated significant
17 achievement in this area, and indicated they will
18 meet the 20 percent renewable goal by this year,
19 the Committee recommends that the state enact
20 legislation that allows the PUC to require SCE to
21 purchase at least 1 percent of additional
22 renewable energy per year between 2006 and 2020.

23 For PG&E and SDG&E the Committee feels
24 the current target is appropriate and should not
25 be changed at this time.

1 The Committee also recommends the
2 repowering of wind turbines to harness wind
3 resources efficiently and prevent bird deaths.
4 Since the draft document was released the federal
5 tax production credit which expired 2003 was
6 extended by Congress to December of 2005.
7 Although not yet signed, the American Wind Energy
8 Association has indicated that President Bush is
9 expected to sign this bill. Passage of this bill
10 would help several stalled wind projects come
11 online.

12 The Committee further recommends that
13 the PUC require investor-owned utilities to
14 facilitate repowerings in its pending efforts to
15 develop renegotiated qualifying facilities
16 contracts.

17 Although the Energy Commission will
18 launch a performance-based PV incentive pilot
19 program in 2005, the Committee makes this
20 recommendation to further reinforce the program.

21 Lastly, the Committee recommends that
22 the Energy Commission continue to support the
23 Governor's solar initiative to achieve greater
24 market penetration of PV systems.

25 As Commissioner Geesman indicated

1 earlier, today's hearing is one in a series of
2 hearings around the state. We would appreciate
3 written comments by October 13th. As Commissioner
4 Geesman also indicated earlier, the final draft
5 Committee document will be released October 20th,
6 which will also include an update on the progress
7 the state has made in meeting the 2003 energy
8 policy report recommendations. On November 3rd
9 the business meeting will consider this update for
10 adoption.

11 Again, I'd like to thank you for being
12 here today and participating in this proceedings.
13 And with that I'd like to pass this back to
14 Commissioner Geesman and the Committee.

15 PRESIDING MEMBER GEESMAN: Thank you,
16 Sandra. I don't see anyone from the Public
17 Adviser's Office here, but we're following our
18 blue card rule, so if people desire to address the
19 Committee, if you'd fill out a blue card and bring
20 that up to one of us here at the front table it
21 would be appreciated.

22 I see my friend and I had anticipated
23 she was going to file a blue card, but, Barbara,
24 without making you --

25 DIRECTOR HALE: I didn't know who to

1 give it to.

2 PRESIDING MEMBER GEESMAN: -- without
3 making you walk around too much, or too fast, why
4 don't we lead off with you.

5 DIRECTOR HALE: Okay. Good morning.
6 Thank you for the opportunity to speak to you this
7 morning, Commissioners and Commission Staff, on
8 your efforts in the 2004 IEPR report update.

9 My name is Barbara Hale. I'm Director
10 of Strategic Planning at the California Public
11 Utilities Commission. And I am here to present
12 the CPUC Staff comments on the draft.

13 First of all, I want to say thank you
14 for the opportunity. I think it's important to
15 continue in our collaborative mode to have these
16 interactive dialogues. And I'm going to read from
17 a prepared statement, but I'm happy to have you
18 interrupt me and engage in more of a dialogue.

19 PRESIDING MEMBER GEESMAN: And we
20 probably will.

21 DIRECTOR HALE: Yes. In general, staff
22 shares many of the concerns that are stated in the
23 report. And we appreciate the effort that the
24 IEPR Committee has undertaken to bring important
25 issues forward for the policymakers to consider

1 and reexamine.

2 We also appreciate that the draft report
3 acknowledges our ongoing productive collaborative
4 efforts and the PUC implementation activities on a
5 number of the report recommendations.

6 I'm going to make some comments on
7 reliability and supply management, demand response
8 issues, transmission planning and renewables.

9 So, first, reliability and supply
10 management. Staff shares the draft report's
11 concern with respect to reliability of supplies
12 and the potential for supply shortfalls in the
13 event of aging power plant retirement. Reliable
14 electric service is critical to the state's
15 economy and the quality of life of its citizens.

16 The California PUC has emphasized the
17 importance of reliable electric service and is
18 acting as quickly and efficiently as possible to
19 insure that enough and reliable resources exist to
20 meet the electricity needs of California citizens.

21 Californians need to receive reliable
22 electric service at all times. Reliability,
23 however, is not limited to just having adequate
24 supplies. We've learned that it also means, as
25 acknowledged in the report, that supplies must be

1 available when and where needed.

2 Staff agrees that many of the aging
3 power plants in California are critical to the
4 reliability of the grid, and for the near term
5 should be kept available and online. And taking
6 actions to assure adequate supplies exist over the
7 next few years, we must not only address potential
8 supplies from aging power plants, but also pay
9 close attention to how these plants can be used
10 for reliability purposes. Specifically how they
11 can contribute to enhancing local reliability and
12 delivering power to load centers. This goes more
13 to how you actually structure contractual
14 arrangements that would keep these plants online.

15 The CPUC has made clear to the IOUs that
16 they must take local reliability and
17 deliverability into account when procuring and
18 scheduling resources; and take appropriate actions
19 to maintain reliable service and to increase local
20 area reliability.

21 There's one point in the report where
22 there's a mischaracterization of the PUC direction
23 to the utilities that I want to call to your
24 attention and make sure is corrected in the next
25 draft.

1 And that's on page 22, where reading
2 from your document it states, quote, "The CPUC
3 limited the utilities to one-year contracts under
4 the approved short-term procurement plans and
5 deferred considering midterm contracts to the
6 long-term procurement proceeding."

7 Actually the CPUC authorized the
8 utilities to engage in three- to five-year
9 contracts under the approved short-term
10 procurement plans. The constraint was not to the
11 duration, but rather to the delivery date. Those
12 contracts, under the short-term plans, that could
13 be as long as five years, needed to provide
14 deliveries in 2004, this year.

15 PRESIDING MEMBER GEESMAN: So, going
16 forward, what's the implication?

17 DIRECTOR HALE: Going forward, for
18 contractual arrangements the utilities wish to
19 make for deliveries after 2004 they will receive
20 additional direction and authorization in our
21 December decision coming out of the long-term
22 procurement order.

23 Your staff has acknowledged that the PUC
24 is developing a capacity market informational
25 conference. I want to acknowledge also here that

1 we're not doing that alone. We're putting that
2 together with the Electricity Oversight Board and
3 the ISO jointly sponsoring that educational
4 conference. And that is being held Monday and
5 Tuesday of next week.

6 Moving then to the issue of demand
7 response. The draft report recommends
8 accelerating and expanding demand response goals
9 whenever possible. The PUC has joined efforts
10 with your agency, as you know, to resolve issues
11 related to demand response, to insure that the
12 IOUs can realize the goals that are already
13 established by the PUC and the CEC. And the
14 report reviews the progress to date.

15 Staff is generally supportive of
16 expanding demand response programs that are cost
17 effective and recommends considering the cost
18 effectiveness of the programs beyond their current
19 levels before adopting new goals.

20 The draft report recommends
21 implementation of a full-scale rollout of advanced
22 metering systems for smaller customers. Facts are
23 being gathered currently and will be evaluated in
24 the basecase, which is also referenced in the
25 draft report, where each IOU is scheduled to

1 submit their views on the cost effectiveness and
2 how they would implement such a rollout by mid
3 October. That's an effort that we've been working
4 on collaboratively with yourselves, primarily
5 Commissioner Rosenfeld, and with the California
6 Power Authority.

7 So the PUC and the CEC have a process
8 already underway which is being collaboratively
9 pursued. And I recommend that we reserve judgment
10 on fullscale rollout until after submission and
11 evaluation of the business case data.

12 PRESIDING MEMBER GEESMAN: At our San
13 Francisco hearing we did discuss the lack of
14 precision in our choice of the word fullscale, and
15 I think that the subsequent draft will see some
16 revisions in that.

17 DIRECTOR HALE: Okay.

18 PRESIDING MEMBER GEESMAN: I think that
19 our intent there had been more one of emphasizing
20 largescale and a high intensity program, and less
21 one of mindless embrace of universalism.

22 DIRECTOR HALE: Thank you. I didn't
23 mean to be implying that I was accusing you of
24 mindless embrace, but --

25 PRESIDING MEMBER GEESMAN: I think we

1 indicted ourselves.

2 DIRECTOR HALE: -- rather pointing --
3 okay, very good. I wasn't able to attend the San
4 Francisco meeting, so I was unaware of that.
5 Thank you for calling that to my attention.

6 I'd also like to point out that in the
7 context of this collaborative effort on demand
8 response staff would like to remind the Committee
9 that we will be considering and resolving cost
10 recovery and rate design issues associated with
11 any scale rollout before such a rollout is
12 approved.

13 PRESIDING MEMBER GEESMAN: And what do
14 you see as the timeframe for that consideration?

15 DIRECTOR HALE: We'll be receiving the
16 business cases by mid October, and it'll be a
17 first quarter fullscale engagement on the issues
18 for --

19 PRESIDING MEMBER GEESMAN: Okay.

20 DIRECTOR HALE: -- the PUC and the CEC
21 in our collaborative effort.

22 Moving then to transmission planning,
23 the area where we have agreed to disagree. I just
24 want to point out a few issues here. The draft
25 report recommends that the CEC, in collaboration

1 with the ISO and the PUC and stakeholders,
2 establish a comprehensive statewide transmission
3 planning process.

4 Staff agrees that improvements in the
5 process is for planning and licensing transmission
6 in California are called for clearly to insure
7 that transmission infrastructure gets added in a
8 timely and efficient manner.

9 In this regard the PUC has a rulemaking
10 to address transmission planning and the licensing
11 and permitting process for the investor-owned
12 utilities whose transmission assets encompass a
13 majority portion of the state's transmission grid,
14 as well as that under the Cal-ISO operational
15 control.

16 There's no acknowledgements of the
17 efforts that are currently underway at the PUC in
18 the draft report, and we think it would be
19 appropriate to acknowledge that effort in
20 transmission planning and licensing and permit
21 process revision.

22 Also, I think it would be appropriate to
23 acknowledge in the draft report the current
24 collaborative efforts led by the Cal-ISO to revise
25 the transmission assessment methodology. That

1 process has been the venue for incorporating the
2 sorts of changes that the draft report outlines on
3 pages 31 and 32.

4 The draft report identifies that
5 California has no formal process to plan for
6 transmission corridors and recommends a
7 collaborative process for corridor planning in the
8 future. PUC Staff agrees that identifying the
9 needed transmission corridors and rights-of-way is
10 an important step in planning and designing a
11 reliable transmission grid for California.

12 Siting transmission facilities and
13 obtaining rights-of-way has become increasingly
14 more difficult, especially in areas where needed
15 transmission infrastructure development overlaps
16 with populated areas. Planning transmission
17 corridors and expanding necessary rights-of-way in
18 advance of this growth will become of significant
19 importance in designing a reliable transmission
20 grid for the state.

21 Staff agrees that advanced corridor
22 planning should be incorporated into the IOUs'
23 transmission planning efforts and applauds the
24 Energy Commission's leadership on this planning
25 issue.

1 PRESIDING MEMBER GEESMAN: There was a
2 reference in our proceedings, and I don't know if
3 it made it into the draft report or not, that a
4 1987 Edison ratecase restricted the period of time
5 that right-of-way investment could be held in
6 ratebase to five years and that the shortness of
7 that period contributed materially to inadequate
8 investment in the future right-of-way needs.

9 Do you have a view or position on that
10 question?

11 DIRECTOR HALE: I appreciate your
12 calling to my attention the restriction. You're
13 right, the draft report, as I read it, didn't
14 indicate what the restriction was. It alluded to
15 it. And I was puzzled by that.

16 Because I know the utilities hold a lot
17 of land, a lot of undeveloped land that is not,
18 you know, used and useful for generation purposes.
19 Having just spent the first three days of this
20 week up in the Pitt River country with the
21 stewardship council looking at some of those lands
22 that are owned by PG&E. I know that's certainly
23 true in California.

24 I'll have to look into this specific
25 restriction. And if there's some modification the

1 PUC needs to make in its directions to the
2 investor-owned utilities, then I would expect
3 there'd be an openness on the part of the
4 Commission to look at that issue, and whether our
5 ratemaking approach should be changed in order to
6 accommodate appropriate right-of-way planning.

7 I'm going to move on then to renewables
8 unless there's more questions on transmission?

9 PRESIDING MEMBER GEESMAN: Yeah, let me
10 touch briefly on the team effort. One of our
11 workshops, I want to say it was probably in May or
12 in June, did address planning methodologies. And
13 the team effort was presented to us by the ISO
14 Staff. And our consultants at CERTS made some
15 comments about it. I believe that was the
16 workshop that we addressed discount rate in.
17 Kerry may have been here from your staff.

18 In general our staff and our consultants
19 were and are complimentary of the team effort and
20 recognize the cutting edge nature of much of that
21 work. We expressed some concerns, and chose not
22 to include them in the draft report out of this
23 era of good feelings we've all entered into
24 collaboratively, about the data intensity of that
25 type of model.

1 And while we thought that the ten-year
2 period of analysis was clearly an improvement over
3 prior short-term horizons that had been used, we
4 didn't feel that it fully captured the period or
5 time horizon that the state decisionmakers should
6 utilize in evaluating projects.

7 And as an example of that data
8 intensity, because of time and expense
9 considerations, the team effort was only able to
10 actually model two of the ten years during the
11 abbreviated period that they had selected.

12 We also found that there were
13 qualitative considerations that are simply too
14 difficult and perhaps, in some instances,
15 impossible to fully capture in a quantitative
16 model.

17 So we didn't want to be negative about
18 the effort. We think that it is an important one
19 to continue to try and improve upon. And we
20 certainly didn't want to be unduly negative in the
21 report, itself. But, without parsing too many
22 phrases, we tried to, in the draft, walk through
23 what we saw as some of the inherent limitations in
24 that modeling intensive and, in our judgment,
25 overly quantitative approach to planning

1 decisions.

2 So that's a fairly long-winded
3 explanation of our omission of reference to some
4 of the things that are going on. But I believe
5 you raise a good point and we ought to provide a
6 little more acknowledgement of that effort than
7 the current draft does.

8 DIRECTOR HALE: Well, I think the
9 comments you just offered are very constructive
10 and helpful and should be shared through the
11 context of the document, and in the venues that
12 the ISO has called for comment.

13 I know your staff has participated in
14 those venues. And I just think it makes sense to
15 sort of make the connections for the folks who are
16 participating in different proceedings, and who
17 are looking at this as a broad policy document on
18 behalf of the state on transmission planning.

19 PRESIDING MEMBER GEESMAN: I think
20 that's a point well taken.

21 DIRECTOR HALE: Thank you. Moving then
22 to renewables. The draft report recommends
23 including municipalities in the RPS program.
24 Clearly one Commissioner, at least, at the Public
25 Utilities Commission has been very vocal with you

1 in the Energy Action Plan settings in talking
2 about the need to do that.

3 Staff agrees. These entities serve a
4 significant portion of California's electric load.
5 The PUC and CEC collaborative staff will be
6 assessing involvement for small and multi-
7 jurisdictional utilities, as well as energy
8 service providers and community choice aggregators
9 in phase two of our RPS proceeding. So we're
10 already together working on implementing some of
11 the recommendations under the renewables portion
12 of the staff report.

13 The staff report recommends an ambitious
14 goal of 33 percent, consistent with the
15 Governor's, 33 percent renewable procurement by
16 2020. Staff agrees that post-2010 targets should
17 be established. I think the draft report makes a
18 good argument that we don't want to lose momentum,
19 having starting to feel kind of comfortable
20 already that we're well on our way to meeting the
21 2010 target. It's appropriate for the Energy
22 Commission to be assessing progress and letting us
23 all know that, you know, we need to get on to the
24 next step, the next target, so I applaud that.

25 Any supporting analysis for the 33

1 percent target should be considered for the
2 investor-owned utilities and the collaborative
3 CPUC RPS proceeding. At that time the impact of
4 the target on the investor-owned utilities
5 resource portfolio and ratepayers may be analyzed
6 and ultimately implemented for the IOUs, as
7 appropriate.

8 The draft report recommends individual
9 utility targets be implemented, depending on each
10 IOU's renewable potential. Sandra, in her summary
11 of the draft report, lays out the steps, the 25
12 percent by 2010 for Edison and so forth.

13 The individual targets, I think, can be
14 further reviewed to determine how they fit with
15 the rest of the IOU's resource portfolio in the
16 next collaborative CPUC long-term procurement
17 proceeding. And I think that's consistent with
18 the approach we've already discussed staff-to-
19 staff about sort of handing off the IEPR
20 recommendations into the procurement proceedings
21 for implementation for IOU procurement.

22 The draft report recommends a higher net
23 metering cap for the investor-owned utilities,
24 citing the fact that SDG&E is already bumping up
25 against its legislatively established cap. CPUC

1 Staff look forward to working with the Energy
2 Commission Staff and Legislators in evaluating an
3 implementing this proposal.

4 The draft report suggests that the CEC
5 and CPUC collaborative staff further investigate
6 the advantages and disadvantages of incorporating
7 unbundled renewable energy certificates or energy
8 credits, RECs, as they're commonly referred to,
9 into the RPS for IOUs, as well as for electric
10 service providers and community choice
11 aggregators.

12 We support this effort. In fact, it's
13 largely already underway at the PUC in our
14 collaborative RPS proceeding where we've issued a
15 ruling, back on September 1st, and requested
16 public comment on the definition of REC ownership
17 in the context of distributed generation
18 facilities.

19 The Commission and CEC collaborative
20 staff will continue to examine the relevant
21 definitional REC questions during phase two of the
22 PUC's RPS proceeding.

23 That concludes my remarks and I thank
24 you for your time.

25 PRESIDING MEMBER GEESMAN: Barbara,

1 thank you very much. You know, we've come a long
2 way in the last couple of years. It's been widely
3 remarked as to the closer working relationship
4 that our Commission and the Public Utilities
5 Commission, the Power Authority and the ISO have
6 enjoyed. And a lot of people have attributed a
7 fair amount of benefit to that.

8 I think that you deserve a great deal of
9 thanks for having brought that about, because in
10 my experience you've been a primary contributor to
11 those improved relationships. And I know that all
12 of our Commissioners here and our staff are
13 appreciative of that.

14 DIRECTOR HALE: Thank you, I appreciate
15 the acknowledgement. I think it, you know, it
16 starts at the top. Commissioners gave us clear
17 direction that that's the new attitude, the new
18 culture. It's been tough, as a manager, making
19 that happen back at our shop. I imagine your
20 managers have had some challenges, too.

21 PRESIDING MEMBER GEESMAN: Yes, they
22 have.

23 DIRECTOR HALE: But it's definitely been
24 a rewarding experience. Thank you.

25 PRESIDING MEMBER GEESMAN: Thanks,

1 Barbara.

2 COMMISSIONER BOYD: I just wanted to
3 thank you, Barbara; I agree with your comments and
4 no further questions. We did miss you in San
5 Francisco, but now I understand why.

6 PRESIDING MEMBER GEESMAN: Okay, next
7 one I've got is Greg Blue from Dynegy on behalf of
8 West Coast Power.

9 MR. BLUE: I have a presentation --

10 UNIDENTIFIED SPEAKER: I can try, but
11 I'm probably not the right person.

12 MR. BLUE: It is loaded in already.

13 (Pause.)

14 MR. BLUE: Okay, I think we're all set
15 up. Good morning, everyone. My name is Greg
16 Blue. As Commissioner Geesman noted, I do work
17 for Dynegy, and I'm here today on behalf of West
18 Coast Power. Dynegy and NRG Energy are 50/50
19 partners in West Coast Power, and they are the
20 owners of our power plants here in California.

21 I think it was about a year ago last
22 October when I first got involved in this process
23 and actually testified in the 2003 IEPR down in El
24 Segundo when we had a meeting at -- one of the
25 hearings that are on the road.

1 And we brought out the issue at that
2 time of what are we going to do with the existing
3 power plants that were aging power plants, as the
4 term is now. We were glad to see, at least, that
5 we got acknowledged in that report. The Committee
6 and Commission came to the same conclusion that we
7 did, that that was an important issue.

8 So in the 2004 update one of the main
9 topics is the aging power plant study, the study
10 of the aging power plants and the reliability and
11 the likes.

12 So my comments today, of course, are
13 focused still on that topic. Overall, this report
14 here is a very good document. We don't disagree
15 with what we see in the transmission pieces or the
16 renewable pieces. So my comments today will be
17 focused on the power plant side. And we will be
18 providing more detailed written comments by the
19 13th.

20 I want to go over some of the highlights
21 as we see them from the report. I think some of
22 these highlights that have been listed, are being
23 dealt with already at the PUC. And I was, by the
24 way, grateful to see PUC Staff participating in
25 this proceeding the same way I'm grateful to see

1 CEC Staff participating in the PUC procedures.

2 That's a welcome change, and it sounds like that's
3 on the right path. It will only get better.

4 But, I'm going to talk about some of the
5 highlights, and a few of what we consider some
6 oversights, and then get to a couple of details on
7 some of these topics. And then end with a few
8 recommendations that we think are for the report.

9 One of the things that we really think
10 is important about this report that we must not
11 forget is that some of the things I'm going to
12 say, and some of the things that the report says
13 now, we all know some of this stuff. But it's
14 important because this report is going to the
15 Governor's Office. This report is going to the
16 Legislature. And we need to help give them some
17 guidance on where we need to be going. And so we
18 need to have maybe a little bit more detail, which
19 is some of my comments later, on some of the
20 issues.

21 Because I believe this will become the
22 state energy policy from which a lot of future
23 decisions will be made; a lot of new legislation
24 will come from. We hope that the product that we
25 give them lays out enough detail so that they can

1 have a template of where to go to to look at what
2 are the recommendations from the energy agencies
3 in California. So it's a very important document.

4 And some of the things I'm going to say
5 are kind of duh, we know these things, but we're
6 going to say it again. We're going to put it on
7 the record again. It needs to be there.

8 First of all, some of the highlights
9 that we saw in the report. Of course, -- and some
10 of these are direct quotes, some of them are what
11 the quotes say. But California must make better
12 use of existing fleet of power plants. We agree
13 with this. This is a comment we've been saying
14 for the last year in many of these hearings.

15 It also noted that it's important to
16 keep this capacity available while transitioning
17 away from DWR and RMR contracts. As I repeated in
18 some of my previous testimony, West Coast Power
19 contracts with DWR expire at the end of this year.

20 While I was glad to hear earlier that
21 the PUC is talking about some of these issues,
22 particularly -- I'll talk now, I was gong to talk
23 later, but it's coming up now -- the July 8th
24 reliability order was issued. This report
25 acknowledges that; the PUC acknowledges that. But

1 today's October 1st and nothing's happened yet.
2 We just wish Edison would understand the
3 importance of this, as well. Hopefully that will
4 happen. Any help from either agency would be, I
5 think, warranted.

6 The Committee recommends developing
7 tradeable capacity markets to help meet the
8 state's proposed resource adequacy requirements.
9 Once again, a conclusion we had reached, and the
10 Committee has reached the same conclusion, the
11 Committee recommends the development of
12 deliverability standards.

13 The Committee believes that resource
14 adequacy requirements may improve the prospects
15 for aging power plants to continue to operate.

16 The Committee also believes that additional
17 transitional policy initiatives will be necessary
18 to forestall reliability problems.

19 Two pages of highlights, that's how good
20 it is. Only one page of oversights, though.

21 Of course, the aging power plants --
22 this is also straight out of the Committee
23 report -- the aging power plants play the
24 following important role. The first one I think
25 we all knew about, we've known about for years,

1 provides local reliability services in select
2 areas of the state through the RMR contracts.

3 I think we knew this, the second bullet,
4 but I think the aging power plant report kind of
5 verified some of these issues, that number two,
6 they contribute to regional and statewide
7 reliability by acting as generating reserve
8 margins during periods of peak load and in system
9 emergencies.

10 The last bullet here is an issue that's
11 really come up over the last year, maybe year and
12 a half. But really started being a big issue this
13 year, particularly in the L.A. Basin area. The
14 aging power plant study also came up with this
15 conclusion. Basically some of the aging power
16 plants help alleviate transmission system
17 congestion by offsetting regional transmission
18 congestion or intertie overloading with generation
19 at or near load.

20 I think that's a very big issue that,
21 again, the Committee has reached the same
22 conclusion as we had reached.

23 Another important comment out of the
24 report, RMR contracts are expensive and a
25 temporary measure. And both FERC and the PUC have

1 encouraged the utilities to pursue alternatives
2 and reduce the need for these contracts.

3 Then as I mentioned the last bullet
4 awhile ago, the PUC has directed the IOUs to
5 consider local reliability needs in the
6 procurement plans rather than rely upon the ISO or
7 RMR.

8 Next is a slide of what I call
9 oversights, and I only use that word because it
10 sounded good with highlights, oversights, you
11 know. It's not meant to be a derogatory term.
12 But it's just some additional things that we think
13 need to be included in this report.

14 Number one, there's no policy
15 recommendations on the value of repowerings at
16 critical existing end-load pocket sites. We think
17 that this policy report should include at least a
18 mention of this, if nothing else.

19 We've also suggested, both at this
20 Commission and at the Public Utilities Commission
21 in our testimony on the generation procurement
22 case that the repowerings should be an explicit
23 resource in the loading order of the Energy Action
24 Plan.

25 Now, note I didn't put where it needs to

1 be, because that's another debate that we don't
2 need to have today, but it does need to be in
3 there. We have our own opinions; I think you guys
4 know what it is.

5 Also, the report does not acknowledge
6 that repowering at these sites are the long-term
7 solution to the local area reliability problems;
8 particularly the L.A. Basin area, potentially the
9 San Francisco area, and perhaps even the San Diego
10 area.

11 And it's really a long-term. That
12 should be part of the long-term solution. It was
13 mentioned earlier by the staff the long-term
14 solutions are transmission, renewables and I think
15 you should be adding repowerings to that, because
16 that is a long-term solution.

17 The report needs a more indepth
18 discussion about capacity markets. There's a
19 little typo in there; I just noticed that. I
20 finished it last night -- sorry. And I'm going to
21 talk about that a little bit later. Give you a
22 few more thoughts that we have on this topic.

23 I know that there is a workshop next
24 Monday and Tuesday. I would hope that the final
25 version of the report could include the results of

1 these workshops, or at least have a little bit
2 more in there. Once again, because this is going
3 to be the template that the Governor looks at and
4 the Administration and the Legislature.

5 The last issue, I heard this week in a
6 presentation, as well as I actually listened to a
7 couple of the hearings on the internet, the last
8 few hearings -- I know people are listening on the
9 internet.

10 And I heard this come up on the hearing
11 in San Francisco, but the concern that the support
12 of short-term power contracts or multiyear
13 contracts, as the report calls them, will
14 discourage developers from constructing the
15 already-permitted power plants is a red herring,
16 in our opinion. And I'm going to talk a little
17 bit more detail about that as we go forward.

18 PRESIDING MEMBER GEESMAN: Are you done
19 with repowering? Because I'd like to get into
20 that a bit.

21 MR. BLUE: Fine. I'll talk any time
22 with you.

23 PRESIDING MEMBER GEESMAN: I think we
24 ought to make some acknowledgement of the value of
25 repowering. But, as I explained at one of our

1 earlier workshops when we got into this dialogue,
2 the Energy Commission has said good words about
3 repowering for, I think, all of its 27, 28 years
4 of existence.

5 So I am a little bit hesitant to place
6 too much stock in the value of more good words.
7 At the same time, this is a difficult issue to
8 address generically. Not all repowerings have the
9 same attributes that repowerings at particular
10 sites may have.

11 I presided over the repowering at the
12 Magnolia site in the City of Burbank. I believe,
13 if my memory serves, we did not have one single
14 adverse comment about the project from any members
15 of the public.

16 I presided over the Pico Plant
17 proceeding, which was a site previously owned by
18 the Silicon Valley Utility District on which a new
19 facility was sited. And I think we may have had
20 one adverse comment from a member of the public.

21 But those were relatively -- well, I
22 should say certainly among the easiest siting
23 decisions this Commission has been called upon to
24 make.

25 On the other hand, as you well know,

1 there are projects proposed at existing sites that
2 arouse a considerably higher level of public
3 concern, public controversy. Despite saying good
4 words about the generic idea of repowerings, we're
5 not going to change the air quality requirements,
6 we're not going to change the Clean Water Act
7 requirements.

8 So I think there is a limited amount of
9 value in our generic viewpoint, particularly when
10 the live-or-die decision on any particular
11 repowering turns out to be extremely site-
12 specific.

13 Having said that I'm not aware of any
14 repowerings that we have turned down, as a
15 Commission. But I think, as you're aware, these
16 can be very difficult and very time-consuming
17 cases. Particularly as it relates to air quality
18 and water quality, or Federal Clean Water Act
19 considerations.

20 MR. BLUE: All I can say is I am aware
21 of that issue. One response. That being said, I
22 looked at the report very carefully and I saw the
23 word repowering once. And it was in reference to
24 the 2003 report.

25 So I just think that something needs to

1 be presented --

2 PRESIDING MEMBER GEESMAN: We will --

3 MR. BLUE: -- before the --

4 PRESIDING MEMBER GEESMAN: -- we will go
5 back through our catechism of good words to say on
6 the generic subject. And I am mindful of what
7 you've told me before that when we use the word
8 repowering we ought to make clear that we also
9 include redevelopment and replacement, --

10 MR. BLUE: Right.

11 PRESIDING MEMBER GEESMAN: -- because in
12 many instances that's much more accurate.

13 MR. BLUE: Correct; that is correct.
14 Okay, my next slide, of course, what presentation
15 would be right for me without the following. I
16 have to give this every time.

17 An update. You know, I appreciate the
18 deliberative process, both here and at the PUC.
19 However, every time I come up here I have to give
20 you guys an update. And everybody knows it, but
21 it's for the record.

22 So, time is of the essence, and let's
23 talk about some of what's happened here.
24 Wednesday, September 8th, that wasn't that long
25 ago, new record by the ISO peak demand of 45,597

1 megawatts. Two days later, Friday, September
2 10th, -- now PG&E's load was down, but both Edison
3 and SDG&E set new all-time records for peak
4 demand.

5 During that week the rest of the WECC
6 was cooler and had energy available to sell to
7 California. And on the peak day, September 8th, a
8 new record this year for imports of 9116
9 megawatts.

10 What that means is every single
11 transmission line coming into the state was 100
12 percent loaded that day. Jim Detmers gave a
13 presentation earlier this week up at the IEP
14 annual meeting, and this is the first time I've
15 seen Detmers in public that animated. He is
16 concerned. I believe he was growing gray hairs as
17 he was talking to us. He's very concerned.

18 And I'm just bringing this sense of
19 urgency again. I will do this every time I get up
20 before you, before the Commission at the PUC;
21 there is a sense of urgency.

22 California, this is the ISO load, but in
23 2004, has increased about 6.8 percent from 2003.
24 And that's the peak demand. And that's about a
25 little over 3000 megawatts year-on-year increase.

1 The PUC has issued a proposed decision
2 on resource adequacy. However, they defer
3 deliverability screens, local reliability
4 requirements, compliance and enforcement of
5 resource adequacy until workshops in 2005. Again,
6 time is of the essence. I would hope you take
7 this message back, as well, Barb.

8 The power plant owners are having to
9 make business decisions now for 2005 and beyond.
10 I will say people are positive about the long-term
11 direction that California is going, I will say
12 that. The big concern is what's going to happen
13 in the near term, and can we wait long enough, can
14 we hold out long enough until things get better.
15 Because I believe, I really truly believe things
16 are going to get better. And we are going to
17 finally get there and everything is pointing in
18 that direction.

19 However, -- okay. The next one is
20 another update of a slide I gave last time. Just
21 kind of giving you a basic -- what this slide is,
22 is we took the latest data that came from Jim
23 Detmers' presentation. We took the high risk of
24 retirement numbers out of this report. And we
25 just laid in the supply and demand picture on

1 those days.

2 Now, we didn't have actual -- it's down
3 here what the sources are -- but we didn't have
4 actual supply, so we did some analysis. Because
5 for whatever reason I can't find the -- I wasn't
6 able in time to get the actual supply, and it's
7 not on the ISO website, which I'm working with
8 them on how they retain some of these information
9 on the certain days.

10 But, the supply was taken from the 2004
11 summer assessment, and then it was adjusted with
12 the actual reported outages on those days from the
13 ISO. So it's an approximation of the supply side.

14 But the point of this is what I'm trying
15 to show is the magnitude of the issue. We're not
16 saying that all these plants are going to retire
17 at the same time. However, if you are sitting in
18 2004 and those plants weren't here, this would be
19 our situation. Just again pointing out the
20 significance of this, and the urgency of this
21 issue as we head into summer of 2005, which we
22 believe is going to show again another increase in
23 demand. Maybe not on the level of 6.8 percent,
24 but certainly greater than the 1 to 2 percent that
25 are being used in forecasts in the past.

1 Well, there's a lot of talk about the
2 capacity markets and what's coming up next week.
3 There's been a lot of talk about capacity tagging.
4 And we wanted to share some of our thoughts on
5 capacity markets.

6 We think, are certainly aligned with the
7 ISO's position, but I know that they're not
8 aligned with some of the positions out there
9 regarding the capacity tagging, some of the
10 issues. Because we're looking at a physical type
11 product versus a tag where you can point to
12 something, or a financial liquidated damages type
13 contract and so forth.

14 So, what we believe is that there needs
15 to be standardization and enforcement of real
16 reliability requirements. That needs to be
17 emphasized over the creation of new market
18 bureaucracies. And what that means, the market
19 bureaucracies, is what we see is if you go to the
20 capacity tagging type model, you have to have some
21 entity to do a -- centralized entity to do an
22 auction. And they have to set prices; and they
23 have to, you know, clear things at the end. And
24 so we think if you build the right requirements,
25 the capacity markets will show up.

1 What we believe you need are -- and the
2 PUC has started on this, but we need to complete
3 the standard definitions of qualified capacity for
4 each resource type. The resource adequacy
5 requirement targets should be met with procurement
6 of standardized capacity product. We believe the
7 standardized capacity product is defined as
8 physical generation capable of producing
9 deliverable energy. And that is the most
10 important sentence in that whole thing,
11 deliverable energy.

12 In the PUC's proposed decision on
13 resource adequacy, I'm going to read a quote here:
14 "Failure of a resource to be deliverable undercuts
15 the whole concept of resource adequacy." We would
16 also add that failure of a resource to be
17 deliverable undercuts the whole concept of
18 capacity markets, as well.

19 And what that really means, and I really
20 didn't say it good enough in my presentation, but
21 I will in my written comments, you really need all
22 three. You need resource adequacy requirements,
23 you need a capacity markets, and you need
24 deliverability standard. And you need them all at
25 the same time. That's very important for this to

1 all work.

2 The other thing that's important is the
3 capacity procured to meet resource adequacy
4 requirements should seamlessly integrate with the
5 ISO's market. And that could be accomplished
6 through a contractual must-offer, not a forced
7 must-offer or a mandated forced-offer.

8 But contractually you can set up the
9 capacity product so that whoever sells the
10 capacity has to offer his energy up to either the
11 buyer, hopefully an LSE; or if the buyer doesn't
12 want it, it's offered to the ISO to take care of
13 things in the real-time market.

14 Now, we believe that the ISO, and I'll
15 tell you why the ISO versus the PUC, should
16 monitor and enforce the resource adequacy
17 requirements, and they should be able to levy
18 penalties for noncompliance, or procure capacity
19 to mitigate new shortfalls and charge the entity
20 who is short that price, whatever the price is.

21 The reason why we believe it should be
22 the ISO and not the PUC is we think the ISO has
23 the information inhouse and has it quicker and
24 sooner, and has a better understanding of it, no
25 offense to the PUC. And maybe there could be some

1 collaboration where the PUC's involved.

2 I understand that typically the PUC is
3 the entity that enforces penalties on at least
4 utilities. I don't know how you're going to do
5 LSEs. We haven't got there yet. But if the ISO
6 did it, and they could enforce it on all LSEs
7 through their transmission agreements or
8 participating generator agreements, or the
9 agreements they have with the ISO to operate on
10 the grid, there's a way that we can get to the
11 LSEs. Where the PUC it's going to be difficult.
12 I believe the LSEs, the nonregulated LSEs are
13 going to probably, my guess is, fight this. But
14 we'll see.

15 So we're going to be presenting some of
16 these issues. And we're one point of view on a
17 spectrum. And the PUC is going to have to figure
18 out where this all fits together, with the
19 participation of the CEC and others. But this is
20 our view of what capacity markets, you know,
21 really need.

22 We basically believe that if you build
23 it they will come, meaning if you put the
24 requirements in there capacity markets will start
25 developing.

1 The other issue, I think, is a concern
2 that you -- I know Commissioner Geesman has
3 expressed, and the report, itself, expresses is
4 the issue on multiyear contracts, particularly one
5 to three year, one to five year contracts being a
6 detriment to resources that have already been
7 licensed, but have not been built yet.

8 And we don't believe that that's an
9 issue, number one. Given the immediate need in
10 the near future, and I, by the way, have heard
11 some information and I believe shortly some
12 information will be made public, and mine is all,
13 I'm sure, just rumor, but there's going to be an
14 '05 update coming from the ISO soon. And I
15 believe it's going to be shocking to a lot of
16 people for '05.

17 And based on what I'm hearing there and
18 what we see is coming next year, we believe that
19 the use of these shorter term contracts should not
20 be a deterrent for long-term commitments required
21 from plants already licensed by the CEC.

22 We think that California needs every
23 instate megawatt it can get for the next seven to
24 ten years, including existing generation, new
25 generation that's already been permitted, and yes,

1 even projects that are in the permitting pipeline.
2 We need all these for the next seven to ten years.

3 So I don't think that that -- and this
4 is our opinion, and I understand that's your
5 opinion, you know, we can debate about opinions,
6 but our opinion is that when long-term contracts
7 are going to be let out as a result of long-term
8 resource plans by the utilities at the PUC, that's
9 what is going to be the event that's going to
10 start triggering potential construction, when some
11 of the long-term contracts start coming out.

12 PRESIDING MEMBER GEESMAN: Well, Greg,
13 let me ask you, if you received a three-year
14 contract for all of the output of one of your
15 existing plants, would you then proceed to
16 construct the repowering or replacement of that
17 plant with a new facility?

18 MR. BLUE: Nobody will lend any money on
19 a three-year contract.

20 PRESIDING MEMBER GEESMAN: So you'd want
21 to wait until you had a longer term contract?

22 MR. BLUE: No. We would need a two- to
23 three-year bridge -- we call it a bridge contract,
24 a bridge until the long-term contracts are out
25 there. And/or there are ways to structure long-

1 term contracts where you could do a ten-year
2 contract that could be financeable with the first
3 three years including some of the running the
4 existing plants. In the meantime you're
5 constructing at the same time. And you keep this
6 existing generation in existence, and in business,
7 until -- then you can switch over, or add to the
8 existing thing with the last seven years of the
9 contract. That's just an example.

10 PRESIDING MEMBER GEESMAN: The concern I
11 have is that Southern California Edison Company
12 has said that it doesn't intend, doesn't feel it
13 needs to enter into contracts longer than three
14 years for conventional fired power plants.

15 MR. BLUE: And my answer to that would
16 be the PUC needs to give them better guidance and
17 straighten them out a little bit. And I think
18 hopefully that would happen at the PUC. Because
19 that's where it has to happen.

20 And while they feel that now, I did hear
21 Edison at this meeting earlier this week, the IEP
22 annual meeting, give a presentation where they are
23 thinking about some ideas for longer term
24 contracts.

25 Now I'm not saying -- they actually put

1 a ten-year contract up on the board, I'm not sure
2 that it flew in the room the way they had it
3 structured. However, they are, I believe they
4 realize in the long run that they're going to have
5 to offer long-term contracts to get new generation
6 built. They just need the right incentive. And
7 they've haven't really gotten the incentive yet.

8 That gets back to, as well, and that
9 will come when the PUC adopts their long-term
10 plans. They have the opportunity and ability to,
11 in those long-term plans, change -- order the
12 utilities to go out and offer long-term contracts
13 and so forth.

14 So I understand what Edison is saying
15 today. Our opinion is in the long run they need
16 to offer long-term contracts. And in the long run
17 they will offer long-term contracts because
18 they're going to be encouraged to do so by their
19 regulators.

20 PRESIDING MEMBER GEESMAN: This was the
21 meeting at South Lake Tahoe?

22 MR. BLUE: Correct.

23 PRESIDING MEMBER GEESMAN: You know,
24 those guys always sound different at 7000 feet
25 than they do --

1 MR. BLUE: Almost reasonable.

2 (Laughter.)

3 MR. BLUE: Almost reasonable, that's
4 right.

5 The other thing about multiyear
6 contracts, they will be used in the near term.
7 Again, this is the issue of what do you do in the
8 near term. And they will be used for the local
9 reliability requirements until, once again, that's
10 the short-term solution. The long-term solution
11 is a repowering at that site, because it's needed
12 in the load pocket.

13 But, it's required to keep the
14 generation in the load center because I can tell
15 you, based on what we've experienced, it will be
16 very difficult to build any new power plant in the
17 load centers, very difficult.

18 PRESIDING MEMBER GEESMAN: Now, I've
19 just given you two contrary examples for municipal
20 utilities, one in southern California, one in
21 northern California.

22 MR. BLUE: Okay.

23 PRESIDING MEMBER GEESMAN: Both in very
24 demanding air districts. And, again, generically
25 I think what you're saying has a lot of value, but

1 I don't believe that you would suggest that every
2 existing power plant deserves to be repowered or
3 replaced.

4 MR. BLUE: Definitely, I would agree
5 with that.

6 PRESIDING MEMBER GEESMAN: So we have to
7 choose from among them.

8 MR. BLUE: That's correct, and it has to
9 be the ones that are identified by the ISO as
10 critical to the grid. That's our opinion. We
11 stated it in previous presentations. I will state
12 it again here for the record. Not every plant
13 needs to be repowered, definitely agree with that.

14 There are, however, some that are
15 critical. And I believe the ones that were really
16 identified -- this report actually identifies the
17 L.A. Basin area, and it says in that report, and I
18 actually read the whole report. The report says
19 that for aging power plants that retire within the
20 L.A. Basin area it's going to affect the ability
21 to import into the L.A. Basin area. And not only
22 that, the plant retirements in the San Diego area
23 could also affect imports into the L.A. Basin
24 area.

25 These are very important observations

1 that have a passing mention in here. They're
2 really not highlighted at all. Maybe that needs
3 to be highlighted. Just a thought.

4 But, yes, I agree, getting back to your
5 statement, not all plants should be repowered.
6 And, in fact, they won't all be repowered. Just
7 we believe that there are some that are critically
8 located on the grid, at critical locations, that
9 need to be, you know, examined.

10 Okay, I'm going to finish up with some
11 recommendations that are recommendations to the
12 report, not recommendations that should be
13 included in the report, but maybe they will. But
14 they're recommendations on how the report
15 potentially should be looked at, and perhaps
16 upgraded a little bit, too.

17 Okay, the report should support
18 repowerings at critical locations. That's what
19 I'm talking about, the critical locations.
20 Studied in the APPS as good public policy for
21 California.

22 The report should support repowerings as
23 an explicit resource in the loading order of the
24 Energy Action Plan.

25 The report should state that some of the

1 existing plant sites in the L.A. Basin are so
2 critical to the transmission system that there
3 will be a continued need for generation at those
4 sites.

5 The report should identify that a
6 standardized capacity product is critical to a
7 successful capacity market. And emphasis should
8 be on the requirements that facilitate markets,
9 rather than a new bureaucratic overlay.

10 The report should advocate for capacity
11 certification accounting rules for the resource
12 adequacy compliance. These are, once again,
13 issues that are eventually going to be dealt with
14 at the PUC, but the report should acknowledge
15 these, and perhaps recommend action by other
16 agencies.

17 And with that, I'll --

18 PRESIDING MEMBER GEESMAN: Let me just
19 give you a semantic sermon. One person's new
20 bureaucratic overlay is another person's proper
21 regulatory oversight.

22 (Laughter.)

23 PRESIDING MEMBER GEESMAN: And I would
24 remind you you're in Sacramento.

25 MR. BLUE: Right. And what we mean by

1 there, new bureaucratic overlay, we weren't
2 referring to a particular agency or government
3 agency, we were really looking at the, in the
4 capacity tagging proposal they asked for a
5 centralized auction by a quote, "entity", which
6 everybody knows is the ISO.

7 And it's a whole process that perhaps, I
8 don't mean government bureaucratic, I mean
9 bureaucratic just because of the process that
10 happens with that type of a proposal.

11 Certainly we believe that it's the
12 capacity markets, the baseline for capacity market
13 needs to be physical generation. The tags can
14 come on top, you know, you could do a lot of
15 things, you know, later with it. But you need to
16 get -- and I believe the ISO, if they were here,
17 would agree with me. They're looking for the
18 physical capacity for reliability for the State of
19 California.

20 PRESIDING MEMBER GEESMAN: Well, thank
21 you very much. And I would remind everyone here
22 and those listening at home, in the '03 process
23 you're the guy that stood up and said there are
24 10,000 megawatts of existing plants at risk for
25 retirement.

1 The net result of our efforts, 11 months
2 later, is to corroborate 9000 megawatts of that by
3 our count. A 90 percent hit rate is pretty good
4 in front of our process. So I would thank you for
5 your contribution last year, and thank you again
6 for all that you've done in this cycle, as well.

7 MR. BLUE: Just as a response, we were
8 gratified to see some of the same conclusions
9 reached. I was actually footnote number 7 in the
10 '03 report, if you go back and look.

11 However, this report is certainly coming
12 to some of the same conclusions, as well. So I
13 see some of our fingerprints throughout this
14 report.

15 So, as I leave, my last comment is
16 overall it's a great report. The staff did a
17 great job. A lot of work in a very short amount
18 of time. And they've got a lot of new facts on
19 the table that really weren't out there a year
20 ago.

21 So I really want to compliment the
22 staff. A lot of those folks aren't here in the
23 room today, but they did a great job. We worked
24 well together. We participated and shared a lot
25 of information, which I believe helped them reach

1 some conclusions that we certainly agree with.

2 Thank you.

3 COMMISSIONER BOYD: Greg, Commissioner
4 Geesman stole most of my thunder. But I remember
5 all too well that El Segundo Power Plant that you
6 referenced. And you're correct, your batting
7 average is quite good.

8 Now, you're in Sacramento this year, as
9 Commissioner Geesman already observed. So I don't
10 know if we can continue the trend. But I really
11 very much appreciate your input. I enjoy what you
12 have to say and I do think you've had a
13 significant impact on us in the past, and perhaps
14 the present and the future, as well.

15 I'll let it go at that. I think
16 Commissioner Geesman touched on most of the points
17 that needed to be touched on. The repowering
18 issue is a tough nut, just like your introduction
19 to the aging power plant issue to us last year was
20 a tough nut.

21 And I just know how tough that issue was
22 for us, and on the staff, when we started to pull
23 that iceberg out of the water and take a look at
24 it this year. And I'm pleased that you, who were
25 so instrumental in pushing that subject for us,

1 are pleased with their output. Because I know
2 they struggled mightily.

3 So I appreciate for them in their behalf
4 your recognition of that work. Because I just
5 know it turned me a little grayer than I already
6 was at the beginning. Thanks.

7 MR. BLUE: Thank you.

8 PRESIDING MEMBER GEESMAN: Next up is
9 Les Guliassi, PG&E.

10 MR. GULIASI: Good morning,
11 Commissioners, Advisors and members of the
12 audience. Once again, thank you for allowing me
13 the opportunity to make comments on your report.

14 First, let me congratulate you and the
15 staff for the fine work you've done. Greg just
16 mentioned the effort that went into the report,
17 and the participation by many, including PG&E.
18 And I think the result speaks for itself, it was a
19 fine job.

20 I think I'm just going to take up a
21 little bit of your time today; I want to be brief
22 and just outline and mention only a few points.
23 Most of what I have to say I said previously in
24 the multitude of workshops that you had. And so
25 what I said on the record there will largely speak

1 for itself.

2 In general, the major points that you
3 made in the executive summary of the report that
4 is shining light on the near-term supply and
5 reliability concerns are extremely important. And
6 if press accounts are any indication of the
7 importance of bringing to the public's attention
8 those issues, I think you've succeeded. I've been
9 following the press accounts since the issuance of
10 the report, and that is really the principal focus
11 of those accounts.

12 In fact, I was just called out of the
13 room ten minutes ago by a reporter that wanted my
14 comments on your predictions and the issues that
15 you raised. So, again, if it's any consolation to
16 you, I think you've hit the right topics.

17 I think we may be on the right track now
18 as far as at least the IOUs are concerned in
19 reinstating an integrated resource planning
20 process here and at the CPUC in their long-term
21 planning and procurement proceedings.

22 And just as a word of encouragement to
23 you I think that again, as I've said before here,
24 that you are the right place to continue to push
25 the envelope to insure that the greater breadth of

1 ideas are examined, and as you continue to focus
2 these issues at a statewide level.

3 And the PUC process is largely honing in
4 on the investor-owned utilities, but here at the
5 Energy Commission you can actually do a lot more
6 to insure that, as an entire state, we focus on
7 these issues and reach beyond the investor-owned
8 utilities to include the municipal utilities and
9 the other load-serving entities.

10 And I'm hoping that through your
11 influence with the Governor and his Administration
12 and the work you've mainly to do with the
13 Legislature you're going to fashion statewide
14 solutions, not merely ones that direct the
15 investor-owned utilities, but that, as I said,
16 reach beyond the investor-owned utilities to
17 address municipal utilities and other load-serving
18 entities.

19 You play a unique role, and I hope that
20 you will continue to push the Administration and
21 the Legislature to look at these problems and
22 their solutions on a statewide basis.

23 In terms of the remedies that you've
24 outlined, I think you've addressed all the correct
25 ones. You know, certainly transmission planning,

1 which I'll say more about in a second, is
2 important. Demand response, the development of a
3 capacity market, planning for reserve margins,
4 renewables goals, photovoltaics and the like.
5 These are all the right topics that we need to
6 focus on as we move forward in the 2005 planning
7 process.

8 What I want to focus on here, just a
9 couple of issues, transmission planning and
10 renewable energy development. I'm not going to
11 talk directly about the aging power plants, but I
12 think some of the remarks I make refer to them
13 indirectly.

14 First, with respect to transmission
15 planning. PG&E has consistently said in this
16 forum that we support your recommendations to have
17 a statewide comprehensive transmission planning
18 process. All of the steps that you outline are
19 needed. We need explicit evaluation of projects
20 from both reliability and economic perspective.
21 We need the evaluation of nonwires alternatives.
22 We certainly need greater investment in
23 infrastructure.

24 And as I've said to you many times
25 before, in large measure PG&E is an infrastructure

1 company. We spend well over a billion dollars a
2 year on basic transmission and distribution
3 infrastructure investment, including both electric
4 and gas.

5 I think that you've shed light on an
6 important issue that is what is the proper
7 planning horizon. Perhaps we should move away
8 from a 10- to a 20-year planning horizon, and look
9 at a longer term horizon, whether that's 30 years,
10 50 years. It gets difficult to fathom planning
11 for such a long view, but I think you're raising
12 the important question about what is the correct
13 planning horizon.

14 And these are just some of the issues
15 that I think you're correct in addressing with
16 respect to comprehensive statewide transmission
17 planning.

18 We still have the patchwork of
19 regulatory and quasi-regulatory agencies, the
20 FERC, the California Public Utilities Commission,
21 the ISO, the CEC. Often this results in
22 disjointed and uncoordinated regulatory processes
23 and outcomes.

24 So, again we support your efforts to
25 take a more comprehensive look at transmission

1 planning. And we need to remedy that problem.
2 The problem of disjointed processes and outcomes.
3 And whether you go about that through legislative
4 means or through executive action, I think it's an
5 important issue to push.

6 In terms of goals, one thing that we can
7 do and we can support is through this notion of an
8 integrated transmission planning process, is to
9 separate ratemaking authority from siting
10 authority.

11 I believe that Senate Bill 1565 may be a
12 small step, but certainly an important step in the
13 right direction. And that hope is an important
14 building block. And perhaps through the
15 Governor's CPR process this issue will come to
16 light and perhaps we can succeed in establishing a
17 more rational transmission planning process in the
18 state.

19 I want to spend just a couple of minutes
20 talking about this notion of transmission
21 corridors. I think I mentioned this at the
22 workshop you had on transmission. I believe the
23 concept is a good concept and it's worthy of
24 further thought and study.

25 But it's not clear to me -- and let me

1 just say, I think that needs to be done in the
2 context of the 2005 process. And I think the role
3 that you can play in leading the effort with
4 respect to federal agencies and other state
5 agencies on the tough issues of land use planning
6 are important.

7 i know Commissioner Boyd has many times
8 said that much of what happens here kind of
9 ultimately boils down to land use planning, and
10 what a daunting task that is. But I believe that
11 your role in taking some leadership position in
12 addressing some of these thorny issues with
13 respect to land use planning, with federal and
14 state agencies, is important.

15 Another specific recommendation is for
16 you to become more involved in the technical study
17 group, the Tehachapi study group, I should say. I
18 know that's a recommendation in your report. I
19 think your active involvement in that process is
20 not only welcome, but necessary.

21 Let me just step aside from my notes for
22 a minute and talk a little bit about an issue that
23 came up in the course of the presentation from
24 Barbara Hale.

25 Commissioner Geesman, you asked about

1 the barrier posed by the CPUC's treatment of a
2 plant held for future use. That issue was
3 highlighted in one of the workshops. Most
4 prominently you described the problem as it came
5 out of a Southern California Edison ratecase, I
6 believe it was a 1989 decision.

7 Similarly, PG&E went through a similar
8 process that Edison went through in our 1990
9 general ratecase. And I actually did spend a
10 considerable amount of time subsequent to the
11 transmission workshop talking to staff about the
12 guidelines that the California Public Utilities
13 Commission put in place, not only for Southern
14 California Edison, but for PG&E. A situation that
15 I'm a little bit more familiar with.

16 And actually I was hoping to get
17 recognition at least in a footnote in the report,
18 but I didn't succeed. Maybe that's an oversight
19 you can correct.

20 (Laughter.)

21 MR. GULIASI: But I did provide
22 information to staff, including information pages
23 from PG&E's 1990 general ratecase decision. That
24 decision laid out specific guidelines for PG&E to
25 follow with respect to ratebase treatment for a

1 plant held for a future use.

2 If you go back to that timeframe it was
3 clear that the utilities needed to take a close
4 look and clean up their books. Not speaking for
5 all the utilities here, but I know in our case,
6 and I think it was the same for Edison, at least
7 what drove the Edison decision just prior to ours,
8 the utilities typically held a great deal of land
9 and property in ratebase for future power plant
10 development, future substation siting. And land
11 that might be used some day for some purpose.

12 The Commission correctly had us go
13 through a cleansing process, and we removed from
14 ratebase property that at that time nobody foresaw
15 a need for future development. But, again, a lot
16 of that land was really for generation, for siting
17 new power plants. There wasn't as much property
18 held for transmission use.

19 And the decision came out with a set of
20 guidelines that identified the types of properties
21 and along with those properties the appropriate
22 timeframes that we should be allowed to include
23 those properties in ratebase before their removal.

24 So a lot of that's been cleaned up and
25 we no longer have a lot of surplus property lying

1 around.

2 I know that issue didn't raise too much
3 prominence in this report. It may be something
4 you want to take up again. But the staff at least
5 has the benefit of the information that I shared,
6 including relative citations and pages from the
7 rate cases.

8 PRESIDING MEMBER GEESMAN: We'll take a
9 look at it.

10 MR. GULIASI: Thank you. So back to the
11 main point here about the corridor concept.
12 Again, I think this is a topic that deserves more
13 careful study in the 2005 process. Certainly the
14 process that's going on at the PUC is key.

15 And where I am today is that I'm not
16 absolutely convinced that corridor set-asides, or
17 expanding rights-of-way is the right step to take
18 now. It may prove that there are more economical
19 ways to tie transmission to generation, and to get
20 that generation to load, as we look through
21 alternatives in the Tehachapi study process.

22 And it may be, as far as PG&E is
23 concerned, that we have enough transmission, or
24 with some minimal buildout of our system and the
25 right kinds of tie-ins that we might be able to

1 accommodate the amount of wind generation that we
2 see in the Tehachapis.

3 Plus we need to see how much of that
4 resource actually develops. The built-in it-will-
5 come strategy may prove to be very costly, and I
6 wouldn't want us just to fall into that trap
7 without fully understanding how much load will be
8 built, what the transmission alternatives are, and
9 how those key links need to be made. Thinking
10 about, you know, consequences and the impact on
11 future flows, potentially backed down units if
12 there's a lot of wind resource, and something I'm
13 going to mention a little bit later. I was very
14 encouraged by your discussion in the report about
15 the need to look more carefully at storage.

16 So while the wind resource may be the
17 most plentiful, unfortunately it doesn't offer
18 PG&E's system the proper fit with our particular
19 load characteristics.

20 The simple fact is that that resource is
21 not available when we most need it. So, again,
22 this requires a great deal more study. But I'm
23 encouraged by your remarks about storage. And,
24 again, this topic needs to be evaluated further in
25 the 2005 process.

1 Turning now to the topic of renewable
2 energy development. I want to just express some
3 similar cautionary remarks about the
4 recommendation to achieve 33 percent renewables by
5 the year 2020.

6 I think it's appropriate that we set
7 goals past the 2010 period. But I think we need
8 some reasonable basis for establishing numerical
9 targets, percentage targets.

10 I stood before you a year ago, almost to
11 the day, and offered cautionary remarks about
12 achieving 20 percent by 2010. And I don't want to
13 go through that same process today because it
14 wasn't the most comfortable for me. But at that
15 time I tried to be constructive and offer some
16 very concrete steps that I believe we needed to
17 take. And some of those steps we still need to
18 take, as a state, and as a set of stakeholders, to
19 insure that we can go through what we need to do
20 in a rational step-by-step process to insure that
21 we achieve these goals in a reasonable timeframe,
22 paying attention to costs, paying attention to
23 fit, paying attention to other things.

24 And while I'm happy to say that PG&E
25 feels confident about our ability to reach the 20

1 percent goal by 2010, I'm just a little bit
2 nervous about setting a very ambitious finite
3 numerical target for us to reach by 2020.

4 And, again, I recognize the importance
5 of goal setting. I'm just not sure how legitimate
6 it is at this time, if it's the right thing to do
7 to establish that target without some necessary
8 groundwork first.

9 And I am encouraged, by the way, of your
10 attempt, once again, to reach beyond a requirement
11 for the investor-owned utilities alone, and make
12 that target a statewide target.

13 I guess the important thing for me is to
14 say that it's not as important in terms of what
15 number you set or what percentage you set, as it
16 is to insure that we create a system that is
17 sustainable, and we put together the foundation so
18 that we can continue to make adequate progress to
19 achieve a goal, or to take the right steps, you
20 know, to reach the goal if it's a realistic goal.

21 And I also recognize that the 33 percent
22 goal by 2020 will become part -- we are committed
23 to working productively with the various
24 initiatives before us, including the solar
25 initiative, whether that's a million solar homes

1 or a million solar somethings, recognizing that
2 perhaps central station photovoltaic is possibly a
3 very cost effective alternative or supplements to
4 a million homes. So we're going to participate
5 productively in that process.

6 And I know that's going to be an
7 important, you know, part of the dialogue and the
8 discourse as we go forward. So while I don't want
9 to, you know, completely throw cold water on the
10 notion of 33 percent, I just want to make sure
11 that what we do is focus on establishing a system
12 that is sustainable, and that we can make progress
13 year by year, and reach realistic targets.

14 I just want to just digress for another
15 moment and talk about wind repowering. It's an
16 important piece of the report --

17 PRESIDING MEMBER GEESMAN: Les, let me
18 jump in.

19 MR. GULIASI: Yeah, go ahead.

20 PRESIDING MEMBER GEESMAN: Because this
21 discussion of future goals is one that you and I
22 have engaged in before in these workshops. Your
23 remarks today bring to mind a conversation that I
24 had a long long long time ago with Fred Mielke,
25 then the CEO of PG&E. And I think, in my

1 judgment, one of the most distinguished and
2 effective CEOs either at your company or the
3 utility industry in California.

4 And this was shortly after your industry
5 and the state in the Jerry Brown Administration
6 had gone through pitched battles over nuclear
7 power and coal projects.

8 And Fred said that in his judgment the
9 role of the utilities was to provide the services
10 that the public needed and that the public wanted.
11 And that the role of state regulators should be, I
12 believe these were his words exactly: tell us what
13 to build.

14 And as a consequence, recognizing that
15 the long-term time horizon that a lot of these
16 investment decisions, of necessity, entail; and
17 also recognizing the extremely amorphous and
18 flexible meaning of the word renewables as applied
19 to electric generating technologies, there's a
20 full range of electric generating technologies
21 that can be characterized as renewable.

22 I drew a fair amount of comfort from the
23 slope in the staff's graph of how a 33 percent
24 statewide goal in 2020 would look as a
25 continuation of our 20 percent goal in 2010.

1 I note that the veto message on SB-1478,
2 i think, clarified exactly where the Governor is
3 on this question. And I think it's commonly
4 associated with him that he has achieved many of
5 the successes in his life based on long-term
6 stretch goals.

7 So I think we're developing a clearer
8 marching order on this stuff than state government
9 has had for a long time. And your company, I
10 think, has been a constructive contributor to
11 that. And I would just invite you to give some
12 thought to the benefit of getting with the
13 program.

14 MR. GULIASI: Well, let me just say, to
15 start from your last remark, we have given a lot
16 of thought to being with the program. And I think
17 I can competently say that we are with the
18 program. I just think we want to make sure that
19 we engage productively and constructively in the
20 dialogue to make intelligent choices as we move
21 forward. And I'm going to actually conclude with
22 that theme.

23 But let me say that we have come a long
24 way from the days when we were talking about
25 building more nuclear power plants, and building

1 coal plants and the like. And, you know, and so I
2 think that history is not only behind us, but
3 it's, you know, kind of buried in our past.

4 And I think the future really lies in
5 alternatives, in thinking broadly and
6 constructively about what California's resource
7 mix needs to be.

8 And, again, I understand the importance
9 of setting goals. I understand the importance of
10 policymakers articulating them clearly so that
11 responsible entities like a utility company, like
12 PG&E, can, you know, engage constructively toward
13 meeting the state's objectives.

14 I've said to you before here, maybe in
15 response somewhat maybe defensively to your
16 comments, that there are many of us who would like
17 every new megawatt to be a green megawatt. And I
18 don't mean to say that just facetiously or
19 flippantly, or because it's a cute thing to say,
20 and you know, it's kind of a catchy phrase.

21 But we have taken this notion seriously
22 and, again, returning to your remark, we are part
23 of the program. As we have said in our, recently,
24 I guess it was May when we put out our
25 solicitation, at least for the short run, that we

1 wanted -- we were committed to making every cost
2 effective investment first. Following the load
3 order with cost effective, energy efficiency,
4 demand response and renewables.

5 And perhaps that word -- I know the word
6 cost effective gets thrown around, and it becomes
7 a little bit of a football. There are some people
8 that want to just drop that term, and say we
9 should take any renewable, regardless of cost.

10 But we have to be cost conscious and we
11 have to think about the fact that somebody has to
12 pay for these costs of these programs. And so
13 cost effective is an important modifier. I'll
14 just leave it at that.

15 PRESIDING MEMBER GEESMAN: Yes, and I do
16 think that cost has to be a consideration. And I
17 also agree with you, your company, I think, has
18 been with the program, and will continue to be.
19 My remarks were probably a little more intended
20 for some of your southern California colleagues
21 among both the investor-owned and municipal side
22 of the industry.

23 MR. GULIASI: Let me just, before I
24 conclude, just speak for a second about wind power
25 and repowered wind power. There are some remarks

1 in the report on page 45 about -- if I can find
2 the right line, a discussion about some of the
3 logjams with respect to repowering contracts to
4 enable repowering of wind facilities.

5 And, again, I don't know if you were
6 directing those remarks at my company or my
7 friends to the south, but I know that PG&E has
8 made a great deal of progress with respect to
9 negotiations with wind companies to help them
10 repower their facilities.

11 I know Sandra made mention early in the
12 day during her presentation about the federal
13 production tax credit, and that's an important
14 element here, as well, something we support and
15 hope it gets signed into law, the extension of
16 that production tax credit.

17 But we have been moving swiftly, I
18 believe, to enable wind developers to repower
19 their facilities because we do see some benefit to
20 have that resource in our mix.

21 And I don't know if that requires, you
22 know, some modification of the language in the
23 report, but I'll let you take a look at that and
24 reconsider how you've constructed that sentence.

25 So, let me just conclude by saying that,

1 you know, all of the goals that you set forth are
2 worthy goals. But, again, I just want to make
3 sure that we're pragmatic and realistic as we
4 evaluate them and compare them one against the
5 other.

6 What we have before us is kind of a set
7 or a suite of options and choices to make. And if
8 you look at any single program, or any single
9 project, it, alone, may look attractive. And even
10 if you kind of combine them, some combination of
11 those options may be the right things to pursue.

12 But when you stack them on top of one
13 another the total of all these, you know, fine,
14 worthy progressive projects may just become at
15 some point too weighty. And these programs, as I
16 said earlier, they do not come for free.

17 And, you know, the result is that
18 somebody has to pay for them. What we don't want
19 to do is impose high costs on our consumers. We
20 don't want to have exceedingly high rates. I
21 recognize California has high rates, and there are
22 sound reasons for those rates being so high.

23 But, you know, as a utility company, we
24 often are the ones who get the brunt of the
25 criticism and the attack for having high rates.

1 So, again, I just want to caution you to
2 think hard about how all these programs stack up.
3 Because when you add up all these costs they have
4 to be paid by someone, and we don't want to, you
5 know, overtax our consumers or our citizens.

6 So I don't want to leave you with that.
7 I want to leave you with some recommendations,
8 things that you can do --

9 PRESIDING MEMBER GEESMAN: I want to
10 address that --

11 MR. GULIASI: Okay. All right.

12 PRESIDING MEMBER GEESMAN: -- that rate
13 question, because if you'll recall the gas price
14 forecast that serves as the underpinning of our
15 2003 report, memory serves, projected gas prices
16 in the mid \$3 range going out through the end of
17 the decade. It's been substantially higher than
18 that. This year, I think, price probably averaged
19 in the mid \$5 range. I know they're a little bit
20 below that now, but I saw the gas futures market
21 exploded yesterday.

22 I think one of the things motivating the
23 state's emphasis on many of these programs is the
24 volatility in the natural gas market, and the
25 extreme adverse economic effect that that

1 volatility can have on our economy.

2 In the rate setting world those gas
3 costs tend to be seen as just a simple pass-
4 through, value neutral. And as a consequence it's
5 incumbent upon somebody to say, you know, we ought
6 to do something to try and move away from that, or
7 to diminish our exposure to that.

8 Our report last year showed that our
9 generating sector is on its way from a dependence
10 on natural gas in the mid to upper 30 percentiles,
11 toward the mid 40 percentiles over the course of
12 the decade.

13 So I think the reason for our urgency
14 should be fairly clear. And I think the impact on
15 your ratepayers should be beneficial. At least
16 that's our intent in designing these
17 recommendations, and designing and administering
18 the programs to follow.

19 MR. GULIASI: You're right, the impact,
20 while it may be high in the short run, may be, you
21 know, lower in the long run. And I think we had a
22 little bit of this dialogue when I made similar
23 remarks at, I think it was the renewables
24 workshop. And I thought more about it since that
25 time, and I can't say that I disagree with you.

1 There are other reasons for moving
2 forward to relying more heavily on renewable
3 resources besides the ones you mentioned.

4 Certainly there are, you know, other security
5 issues here; there's certainly a benefit from
6 diversity.

7 But there's no question that a greater
8 reliance on renewable resources can be a hedge
9 against high gas prices and the risk we face
10 there.

11 And I know you'll be taking up this
12 topic in the 2005 report; you'll be working on
13 some forecasts. I know that LNG will be a
14 principal area of study. And I think that we need
15 to take a look at what the gas forecasts with the
16 gas supply outlook is. And understand what
17 natural gas -- LNG will -- what impact LNG will
18 have on the overall supply and outlook, and on the
19 forecast of prices.

20 But there's no doubt that there are
21 benefits to renewable energy with respect to
22 security, resource diversity and as a hedge
23 against price volatility from natural gas. I
24 agree with all that.

25 Anyway, what I was about to say was that

1 I wanted to leave you with some recommendations to
2 work with you through the 2005 process; to make
3 the 2005 report and the process leading to that
4 report a productive one that I think can help
5 address some of the concerns that I raised today.

6 One of the things you can do, I think,
7 is to help us better evaluate the alternatives
8 that we have before us. And I think it really
9 speaks to the point you just raised, Commissioner
10 Geesman, about, you know, about options and
11 tradeoffs between fuels, between supply sources.

12 So, I guess just in conclusion I want to
13 say that I believe you've done an excellent job
14 this year by focusing on the three areas that you
15 chose to focus on from the '03 report.

16 And for the 2005 IEPR, specifically I
17 think you can help improve the process and the
18 product if you follow just a few simple steps.
19 First, help us to better identify what the
20 priorities are. Help us better evaluate those
21 priorities. Help us assess the tradeoffs between
22 or among policy priorities.

23 And I think importantly something that
24 really has been done much in the last couple of
25 years is for you to help give us a better and more

1 realistic timetable for moving ahead. And I mean
2 something more than simply setting, you know,
3 goals, targets to achieve by a certain year.

4 I think we need to bring that down to a
5 little bit more of a concrete step-by-step process
6 so we understand kind of what needs to be done in
7 the short run; you know, what needs to be done in
8 the three- to five-year timeframe; and what needs
9 to be done kind of longer than the five-year
10 timeframe.

11 I believe it was in the hearing you had
12 about what we should study, what we should look at
13 and address in the 2005 process, I think you asked
14 Southern California Edison what should be the
15 proper timeframe. And if I recall the answer was
16 we should go back to the basics here from the
17 Warren Alquist Act, and look at a 20-year planning
18 horizon.

19 And while that may be important to do,
20 and I think it's important to take a long view, I
21 think it's important also to make sure that we
22 work through the issues that we still have
23 overhanging us from the past few years. And we
24 really set our sights on what's achievable next
25 year and the three- to five-year timeframe, as

1 well as longer time periods.

2 So, again, thank you for the opportunity
3 to speak. And if you have any further questions,
4 catch me before I escape.

5 (Laughter.)

6 PRESIDING MEMBER GEESMAN: Well, thank
7 you very much, Les. And we have greatly
8 appreciated your company's contribution to the
9 process this year, and certainly look forward to
10 your continued engagement next year in the '05
11 cycle.

12 MR. GULIASI: Thank you.

13 PRESIDING MEMBER GEESMAN: Commissioner
14 Boyd?

15 COMMISSIONER BOYD: Thank you, Les. I
16 always enjoy, in fact I look forward to hearing
17 from you, and enjoy what you have to say. A good
18 degree of idealism is always healthy.

19 And a few moments ago you captured in a
20 response to Commissioner Geesman a lot of what I
21 thought were good concluding comments about
22 diversity, security, hedging. We had just talked
23 about volatility. I always like to talk about the
24 caprice of Mother Nature. These are all issues
25 that we have to deal with.

1 And the reference to the cost of gas,
2 presumed last year, and what's happened to us is
3 just a typical example of the difficulty we deal
4 with in this area.

5 And so I can appreciate your urging such
6 caution, and your concern about stretch goals. By
7 the same token I sit here, god forbid, with 40
8 years in state government, a little more than two
9 years to go on this term. I'm not running for
10 anything; I don't want to be appointed to anything
11 else. And I desperately want all state agencies
12 to work together, to speak with one voice, to help
13 give you guidance. And I think we're getting
14 better at that.

15 But, I come from an awful lot of
16 experience that says if you don't set goals, and
17 even set stretch goals, with the way the human
18 species behaves, we don't make the kind of
19 progress we need many times.

20 So we have to wrestle with that dilemma.
21 And I'm just trying to drag you -- you want us all
22 to work together, and I'm trying to drag you into
23 the forum to give you a little bit of an idea what
24 it is we wrestle with.

25 So I appreciate your offers. I

1 appreciate where you're coming from. And my
2 closing comment will be I'm reflecting on a -- you
3 know, it is time to reflect on a year ago; October
4 was a very monumental month in closing down the
5 2003 IEPR.

6 And Greg Blue's comments about
7 footnotes, well, if you recall last year about
8 this time we had virtually no footnotes, and the
9 final report had lots of footnotes. So you can
10 hold out hope that you'll find yourself perhaps in
11 a footnote somewhere.

12 (Laughter.)

13 COMMISSIONER BOYD: But I do look
14 forward to continuing to work with you on a lot of
15 these issues. And the same goes with the
16 reference to the planning horizon. We had a long
17 discussion in San Diego yesterday, as you can well
18 imagine why, about transmission planning horizons.
19 And the difficulty of short term versus long term
20 and the ever-accelerating pace of everything we
21 do, and the need to take the long view.

22 So, again, we wrestle with that. And,
23 you know, what is the right planning horizon in
24 this state that is so rapidly filling up with
25 people that land is disappearing rapidly to use

1 for anything. And, you know, we're not going to
2 import everything we need in the energy arena.

3 So, welcome into the pool, I guess is
4 what I'm saying, and look forward to working with
5 you and sharing some of the dilemmas with you that
6 we have to deal with, as well as sharing the
7 dilemmas of your company.

8 And the last comment will be on cost. I
9 appreciate the term cost effective as contrasted
10 with cost/benefit; and I appreciate your concern
11 that we've been concerned with cost. I think I
12 can assure you, from what I've seen from my tenure
13 here, that there's a great sensitivity in this
14 organization to what it costs the public and to
15 costs, particularly those of us -- and I'm looking
16 at Barbara as I say this -- who suffered on a
17 daily basis through the electricity crisis and
18 trying to figure out how to bail the water out of
19 the boat fast enough to keep it afloat, and what-
20 have-you. And cost is always a major concern.

21 So, with all those altruistic assurances
22 I look forward to continue to work with you and
23 your company. And I really do look forward to
24 what you have to present to us. And I appreciate
25 folks like you who faithfully show up and give us

1 your point of view and give us some guidance. So,
2 thanks.

3 MR. GULIASI: May I just say one last
4 thing in closing, not so much in response, but
5 something you reminded me of.

6 Again, I do appreciate your welcoming me
7 and PG&E into the process. And as long as I've
8 been here I've tried to be a productive member of
9 this, you know, body, to the advanced thinking,
10 you know, and move forward.

11 We've actually done a lot of thinking
12 about, at least begun to do a lot of thinking
13 about this outlook on gas. And about the kind of
14 the out-of-the-box thinking in our planning
15 process about the acquisition of renewables.

16 And kind of what impact does -- how many
17 renewables can we really absorb into our system;
18 what does the fit look like; what will be the
19 costs. A lot of unknowns here, but we've begun to
20 kind of think strategically about those questions.

21 And I just want to offer to you that in
22 the context of the 2005 process, and even perhaps
23 before it sort of begins in full, be happy to sit
24 down with you and kind of share some thinking,
25 share our thinking with you. Because I think

1 you'll find it useful and will make sure that it
2 becomes part of the record in the 2005 process.

3 COMMISSIONER BOYD: Well, I thank you
4 for that. And I think, speaking for both us, we
5 would very much appreciate that. And I know the
6 staff would, too, so, thank you.

7 MR. GULIASI: Okay, thank you very much.

8 PRESIDING MEMBER GEESMAN: Thank you,
9 Les. Manuel Alvarez, Southern California Edison.

10 MR. ALVAREZ: Manual Alvarez, Southern
11 California Edison. Before I bring up the items I
12 want to speak to the Commission about, I didn't
13 think I was going to have to say this, but I guess
14 there was a couple of items that came up today
15 that I want to bring to your attention. And it's
16 more from experience and a word of caution.

17 Mr. Blue brought up the capacity market
18 seminar that's taking place, and I think the PUC,
19 Ms. Hale, also brought that up.

20 And one of the suggestions was made that
21 in this update of the 2003 report that the
22 Committee or the Commission wait for results of
23 that process to be completed and incorporate that
24 into your final report.

25 The caution I want to bring to your

1 attention is, in fact, I would caution you against
2 that. And this goes not so much in the specific
3 issue of capacity markets, but how the Energy
4 Commission actually updates and prepares it's
5 Integrated Energy Plan.

6 It's one of the traps that we fell into
7 as a society in previous reports, in which new
8 information, new updates, new perspectives want to
9 get incorporated into a planning document as we
10 move forward.

11 The critical item, as I presented to you
12 in the 2005 scoping presentation, was for you to
13 provide us a guidance you think you needed to make
14 whatever decisions at that particular point that
15 needed to be made from a policy perspective. And
16 we all understood at that point that things will
17 change. The capacity market, evolution will
18 develop. You brought up earlier the natural gas
19 price changes in the marketplace. And we all
20 understand that in the interim, in preparing the
21 planning document, circumstances change.

22 And so I caution you basically not to
23 move forward on the developing of this process
24 again for either this report or for the 2005. To
25 merely accept circumstances that are changing

1 quite dramatically and incorporate them into the
2 final report.

3 I think it's part of the inherent risk
4 in a planning document in which you're moving
5 forward and say to yourself, what do I think I
6 have to decide in this particular cycle. And give
7 us that clarity and certainty in terms of moving
8 forward, knowing full well at the next cycle you
9 can expand that scope and address new issues or
10 implications of things you didn't foresee. So,
11 that's just a word of caution.

12 What I want to do today is basically
13 highlight for you the areas that we want to bring
14 to your attention. We will be filing comments by
15 the October 13th date on the report. And we
16 wanted to have the benefit of all the five
17 meetings you're having and hear the interactions
18 and the issues that come up.

19 The first item I wanted to bring to your
20 attention, and I was actually pleased to hear some
21 of your comments, Commissioner, about the demand
22 response; and I guess the notion of full-scale
23 accelerated deployment. That was one item in
24 which we wanted to bring to your attention that we
25 felt that what the meaning of full scale and rapid

1 deployment meant. It wasn't fully understood in
2 the report, and correspondingly the respective
3 costs.

4 You are aware that that is a proceeding
5 that's going on at the PUC. The Energy Commission
6 here had a full day meeting of that yesterday.
7 And by mid October you will be seeing business
8 proposals from each of the various utilities. So
9 that was one area.

10 The second area was the transmission
11 planning. And we participated quite extensively
12 with the Commission on that particular activity.
13 We're pretty pleased of where you ended up there.
14 We think your recommendations of the joint
15 efforts, the joint participation dealing with
16 renewable development and expansion in the
17 corridor planning, we're very pleased that you
18 accepted some of our comments in those particular
19 activities. So we're looking forward to moving
20 forward in the 2005 process with that activity.

21 The third area is where we --

22 PRESIDING MEMBER GEESMAN: Let me say on
23 that one, Manuel, I think that the contribution
24 that your company's staff, in particular Patricia
25 Mayfield Arons, made was exemplary and helped to

1 clarify our thinking quite a bit. And I both
2 thank you for that, and hope that you certainly
3 make known within the company the value with which
4 that contribution has been received.

5 MR. ALVAREZ: I'll take that back. The
6 third area is renewable development, and I guess I
7 probably should have been issued a hardhat for the
8 possibility of an axe handle coming out, and the
9 two recommendations dealing with the 33 percent
10 requirement is something that I still want to
11 caution.

12 We cautioned the Commission and the
13 Committee during the workshops. At that point we
14 thought it was still premature. We felt that
15 there was a need for more analysis in that
16 particular area and we still feel that way.

17 I understand and read the Governor's
18 veto on the renewable portfolio acceleration, and
19 his statement of a desire for a 33 percent across
20 the board in the State of California, including
21 the municipal utilities and the investor-owned
22 utilities, and we take that to heart.

23 But, one of the funny things about
24 political campaign statements at the time, while
25 they indicate what the goal is, they also indicate

1 the work that needs to be done as you move forward
2 to establish that goal, and the substance and the
3 analysis that needs to be undertaken.

4 And I still caution the Commission,
5 there's still much work to be understood in terms
6 of what the implications of a 33 percent goal are
7 for the State of California. And then ultimately
8 how that would be distributed.

9 So, I'm cautioning the Commission now
10 that you need to kind of do a bit more work there
11 and figure out what the implications are.

12 PRESIDING MEMBER GEESMAN: I don't think
13 there's any doubt about that. And I think that
14 that is one of the elements that most strongly
15 motivates our desire to see your company step up
16 to its traditional leadership role. That's why we
17 have recommended a higher goal for Edison, based
18 on the renewable resources that occur within your
19 geographic area.

20 That's why we think that you should
21 shoot for a 25 percent target in 2010 and a 30
22 percent target in 2015, and a 35 percent target in
23 2020. If you look at the 1 percent per year
24 increment, that's by no means an unreasonable pace
25 from where you currently stand.

1 And frankly, Manuel, we need your
2 company's leadership. We've gotten it before. We
3 very much need it today in order to fully achieve
4 the potential that's available to the entire
5 state.

6 MR. ALVAREZ: I appreciate those
7 comments, and in fact, let me tell you where I
8 think that interface takes place best. And that
9 takes place under the work that you're asking us
10 to do, and in fact everyone to do, under the
11 transmission analysis dealing with the renewable
12 development in Imperial County and the Salton Sea
13 and the Tehachapis.

14 That's the perfect place in which you
15 undertake those kinds of analysis and activities
16 that need to be undertaken.

17 But we still believe it's premature. In
18 fact, that recommendation specifically for a
19 utility-specific goal and Edison's targeted goal
20 of 25 percent, we still believe it's premature.

21 The analysis that we will undertake in
22 the transmission area will show, I believe, that
23 under current structure in California's market
24 there's no prohibition of any participant or any
25 utility company contracting for and acquiring

1 renewable resources in the southern California
2 area. There's no market constraint and there's no
3 policy constraint for somebody else doing that.

4 The physical location of the renewables
5 is --

6 PRESIDING MEMBER GEESMAN: Yeah, but the
7 concern that we have is that given the good work
8 that your company has done, which has enabled it
9 to get very close, if not beyond, the current 20
10 percent goal, you would have us, in essence, give
11 you a free lunch pass to go to the beach.

12 You know, you've already accomplished
13 the 2010 target. Our fear is that you sit out the
14 market; you don't elect to participate between now
15 and 2010, at a point in time where your state
16 needs you.

17 And frankly, I will say, the long delay
18 in producing any results from your 2003 interim
19 solicitation bolsters that concern.

20 MR. ALVAREZ: Well, I appreciate that
21 concern. And in fact, the interim solicitation we
22 did was, in fact, to try to get ahead of that
23 marketplace. And I think we're still ahead of
24 that marketplace. We may not be as far ahead as
25 we thought we would have been at the time. We

1 believe we're still ahead of the current pace.

2 I do believe we still maintain our
3 leadership role, and we will still move forward
4 there.

5 You know, the other alternative on the
6 33 percent versus pursuing a mandated approach
7 would be to figure out what kind of incentives
8 need to do to meet a goal. If 20 percent is the
9 current legislative goal and you want to go to 33
10 percent, what kind of incentives and opportunities
11 exist to move forward, and what are the benefits
12 of doing that. I think that's something that
13 needs to be considered as we pursue this
14 evaluation.

15 So, I think it's understood that we
16 disagree with the Edison-specific target. We
17 haven't changed our opinion on that. And we look
18 forward to the next dialogue on that particular
19 activity.

20 There is one other point that I want to
21 bring up, and this gets back to this more generic
22 nature of the planning process. And it just
23 reminded me as we were discussing the renewable
24 area.

25 A lot of the discussion that we talked

1 about in the 2005 report during the scoping
2 proceedings and the filings that we made there,
3 and the activities we're wrestling with now, with
4 the data collection process that's been initiated,
5 deals with an area in which different parties are
6 going to disagree on the status of a particular
7 issue, whether it's technology development,
8 whether its economic parameters, whether it's
9 demographic data, or whether it's items such as
10 just the basic supply and demand characteristics.

11 And we need a forum by which we can
12 wrestle with those issues. A lot of them involve
13 technical judgments. A lot of them involve policy
14 judgments. And we need to be able to somewhat
15 decipher those two as we move forward in the 2005
16 program.

17 So I recommend it in our filing that we
18 establish a number of working groups. Your report
19 talks about that in the transmission area. And I
20 guess I'll just end with saying that I think the
21 renewables program and the renewables
22 recommendation can benefit from that
23 deliberation. And I'll make my commitment to
24 participate that fully as we can.

25 Thank you.

1 PRESIDING MEMBER GEESMAN: Thank you,
2 Manuel. Your company has helped us a lot in this
3 process. And we look forward to your continued
4 involvement in the '05 cycle.

5 Commissioner Boyd?

6 COMMISSIONER BOYD: Looking for a
7 footnote, Manuel?

8 (Laughter.)

9 MR. ALVAREZ: I read all the documents.

10 PRESIDING MEMBER GEESMAN: Is there
11 anyone else that cares to address us today? I'm
12 out of blue cards.

13 Okay, I want to thank you all. And we
14 will see you further on in the process. We'll be
15 adjourned.

16 (Whereupon, at 12:50 p.m., the hearing
17 was adjourned.)

18 --o0o--

CERTIFICATE OF REPORTER

I, PETER PETTY, an Electronic Reporter,
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I further certify that I am not of
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